

## Message Text

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ACTION EB-07

INFO OCT-01 AF-08 ISO-00 AID-05 CIAE-00 COME-00 FRB-01  
   INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02  
   CIEP-02 LAB-04 SIL-01 OMB-01 AGRE-00 NSC-05 SS-15  
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R 210801Z DEC 76  
FM AMEMBASSY PRETORIA  
TO SECSTATE WASHDC 6458  
INFO AMCONSUL CAPE TOWN  
AMCONSUL DURBAN  
AMCONSUL JOHANNESBURG

UNCLAS PRETORIA 5797

E.O. 11652: N/A  
TAGS: ECON SF  
SUBJECT: ECONOMIC TRENDS FROM RESERVE BANK QUARTERLY  
BULLETIN

1. SUMMARY: QUARTERLY BULLETIN OF SOUTH AFRICAN RESERVE BANK  
SHOWS SOMEWHAT BETTER THAN EXPECTED PERFORMANCE FOR BOTH GDP  
AND BALANCE OF PAYMENTS IN THIRD QUARTER OF 1976. GDP ROSE  
SLIGHTLY IN REAL TERMS FOLLOWING TWO QUARTERS OF DECLINE.  
HOWEVER, THIS INCREASE STEMMED COMPLETELY FROM STRONGER SHOWINGS  
BY AGRICULTURAL AND NON-GOLD MINING SECTORS AND IS NOT VIEWED AS  
INDICATING START OF GENERAL RECOVERY FROM CURRENT RECESSION.  
RESERVE BANK NOW PROJECTS REAL GDP WILL SHOW SMALL POSITIVE LEVEL  
OF GROWTH IN 1976 RATHER THAN POSTING REAL DECLINE AS MOST  
OBSERVERS HAD BEEN PREDICTING. CURRENT ACCOUNT DEFICIT DROPPED  
SHARPLY TO R111 MILLION IN THIRD QUARTER. CAPITAL ACCOUNT,  
HOWEVER, SHOWED NET CAPITAL OUTFLOW OF R12 MILLION IN QUARTER  
RESULTING IN CONTINUED PRESSURE ON BALANCE OF PAYMENTS  
IN SPITE OF IMPROVED CURRENT ACCOUNT. END SUMMARY.

2. DECEMBER RESERVE BANK BULLETIN REPORTS REAL GROSS DOMESTIC  
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PRODUCT INCREASED SLIGHTLY IN THIRD QUARTER OWING TO SUBSTANTIAL  
CONTRIBUTION BY AGRICULTURAL SECTOR. NON-AGRICULTURAL SECTORS,  
HOWEVER, SHOWED DECLINE OF NEARLY 2.5 ON ANNUAL RATE IN THEIR  
CONTRIBUTION TO REAL GDP DURING THIRD QUARTER. NON-GOLD MINING  
WAS ONLY NON-AGRICULTURAL SECTOR TO SHOW INCREASE. CONSTRUCTION  
AND RETAIL AND MOTOR TRADE DECLINED BUT SURPRISINGLY MANUFACTURING

REMAINED ABOUT SAME LEVEL AS SECOND QUARTER. PRIVATE AND GOVERNMENT CONSUMPTION EXPENDITURE, GROSS DOMESTIC FIXED INVESTMENT, AND INVENTORY INVESTMENT ALL POSTED REAL DECLINES IN THIRD QUARTER. FOR 1976 AS WHOLE, BANK PROJECTS SMALL INCREASE IN REAL GDP AND DECLINE IN REAL GNP.

3. SAG EFFORTS TO BRING BALANCE OF PAYMENTS UNDER CONTROL SHOWED SIGNIFICANT RESULTS IN THIRD QUARTER WITH SHARP DECLINE IN CURRENT ACCOUNT DEFICIT TO R111 MILLION COMPARED TO R528 MILLION AND R487 MILLION IN FIRST AND SECOND QUARTERS RESPECTIVELY. AT ANNUAL RATE AND SEASONALLY ADJUSTED, DEFICIT STOOD AT R1,070 MILLION IN THIRD QUARTER COMPARED TO R1,923M IN SECOND QUARTER. MERCHANDISE EXPORTS GREW TO R1,361M IN THIRD QUARTER VS. R1,147M IN SECOND QUARTER. INCREASE IN EXPORTS CAUSED BY HIGHER VOLUME OF DIAMOND, MINERAL, COPPER AND SUGAR EXPORTS AND HIGHER PRICES FOR URANIUM, COPPER, CORN AND WOOL. VALUE OF NET GOLD OUTPUT DECLINED SLIGHTLY IN THIRD QUARTER TO R567M DUE TO LOWER GOLD PRICES. NET SERVICE PAYMENTS IMPROVED TO R289M COMPARED TO R348M IN SECOND QUARTER. CAPITAL ACCOUNT IN THIRD QUARTER SHOWED NET OUTFLOW OF R12 MILLION COMPARED TO NET INFLOW OF R483M AND R89M IN FIRST AND SECOND QUARTERS RESPECTIVELY. THIS IS FIRST NET CAPITAL OUTFLOW SINCE 1973. OVERALL OUTFLOW DUE TO OUTFLOW OF R165M IN PRIVATE SECTOR WHICH OFFSET AN INFLOW OF R153 TO CENTRAL GOVERNMENT AND BANKING SECTOR (OF WHICH R75 MILLION REPRESENTED IMF LOAN). RESERVE BANK ATTRIBUTES NET CAPITAL LOSS TO CONCERN OVER POLITICAL SITUATION, DECLINE IN LONG TERM BORROWING BY CENTRAL GOVERNMENT, AND LOWER LEVELS OF INVESTMENT. TO FINANCE CURRENT ACCOUNT DEFICIT, GOLD AND FOREIGN EXCHANGE RESERVES WERE DRAWN DOWN BY R120 MILLION IN THIRD QUARTER COMPARED TO DECLINE OF R395M IN SECOND QUARTER.

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AT END OF THIRD QUARTER, TOTAL RESERVES WERE R831M, OF WHICH RESERVE BANK HELD R688M. NET FOREIGN EXCHANGE RESERVES (RESERVES MINUS SHORT TERM FOREIGN LIABILITIES) IMPROVED FROM MINUS R545M IN SECOND QUARTER TO MINUS R187M IN THIRD SEASONALLY ADJUSTED.

4. QUANTITY OF MONEY AND NEAR MONEY INCREASED BY 2 PERCENT AT ANNUAL RATE SEASONALLY ADJUSTED COMPARED TO INCREASES OF 15 AND 18 PERCENT IN FIRST AND SECOND QUARTER RESPECTIVELY. GOVERNMENT EXPENDITURES GREW BY ONLY 4 PERCENT IN THIRD QUARTER COMPARED TO 40 PERCENT IN SECOND QUARTER CAUSING EXCHEQUER DEFICIT TO DECLINE TO R290M COMPARED TO R936H IN SECOND QUARTER. NET CLAIMS OF BANKING SECTOR ON GOVERNMENT GREW BY ONLY ABOUT R175 MILLION IN THIRD QUARTER COMPARED TO APPROX. R600 MILLION IN SECOND QUARTER.

5. COMMENT: THIRD QUARTER NATIONAL INCOME FIGURES SERVE AS REMINDERS OF BASIC STRENGTH WHICH RELATIVE DIVERSIFICATION GIVES TO SOUTH AFRICAN ECONOMY AND POINTS UP NECESSITY OF

KEEPING CURRENT CYCLICAL RECESSION IN PERSPECTIVE. FACT THAT NON-GOLD MINING AND AGRICULTURE WERE SUFFICIENTLY STRONG TO TIP REAL GDP INTO THE POSITIVE COLUMN IN THIRD QUARTER IS ENCOURAGING FOR 1977 WHEN OVERALL RECOVERY WILL REQUIRE SUBSTANTIAL GROWTH IN MINING AND TO LESSER EXTENT AGRICULTURE TO OVERCOME WEAKNESS IN OTHER SECTORS. ALL EVIDENCE INDICATES THAT NON-MINING AND NON-AGRICULTURE SECTORS CONTINUING THEIR DECLINE IN FOURTH QUARTER AND RECESSIONARY FORCES HAVE NOT MARKEDLY SLACKENED. RESERVE BANK'S PROJECTION OF SMALL BUT POSITIVE REAL GROWTH IN GDP IN 1976 IS SURPRISING IN THAT MOST RECENT ESTIMATES PROJECTED DECLINES OF ONE HALF TO ONE PERCENT AND EVIDENCE OF DECLINES IN MANUFACTURING, TRADE AND CONSTRUCTION IS QUITE STRONG. GIVEN ACCESS OF RESERVE BANK TO UNPUBLISHED STATISTICS, THIS IS CERTAINLY MOST AUTHORITATIVE PROJECTION TO DATE. WE WOULD NOW EXPECT THAT EITHER INCREASE OR DECREASE IN REAL GDP LIKELY TO BE SO SMALL THAT ZERO GROWTH RATE MOST REALISTIC PROJECTION.

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EVEN THIS WILL ONLY BE POSSIBLE DUE TO LATE-YEAR SURGE IN MINERAL EXPORTS AND PARTICULARLY GOLD PRICES. WEAKENING OF NON-GOLD COMMODITY PRICES IN OCTOBER AND NOVEMBER POINTED UP KEY QUESTION OF WHETHER EXTERNAL MARKETS WILL BE SUFFICIENTLY BUOYANT TO SUPPORT EXPORT-LED RECOVERY FOR SA IN 1977.

6. WHILE SURGE IN MINING EXPORTS CAUSED IMPROVEMENT IN CURRENT ACCOUNT TO BE GREATER THAN EXPECTED, LARGE DECLINE IN DEFICIT WAS ANTICIPATED IN LIGHT OF SAG IMPORT DEPOSIT SCHEME AND OTHER MEASURES AND IMPROVEMENT EXPECTED TO CONTINUE THRU FOURTH QUARTER. ACTUAL NET CAPITAL OUTFLOW IN THIRD QUARTER AFTER THREE YEARS OF LARGE INFLOWS HIGHLIGHTS NECESSITY FOR SAG OF KEEPING CURRENT ACCOUNT UNDER TIGHT RESTRAINT. CAPITAL ACCOUNT MAY IMPROVE SOMEWHAT IN FOURTH QUARTER BUT DAYS OF LARGE NET INFLOWS CLEARLY OVER FOR SOME TIME. SAG APPEARS TO HAVE BROUGHT BALANCE OF PAYMENTS UNDER CONTROL FOR TIME BEING BUT SITUATION REMAINS DELICATE AND RECENT INCREASE IN OIL PRICES WILL CAUSE RENEWED PRESSURE. CONTINUED RESTRAINT ON GOVERNMENT SPENDING AND MONETARY POLICIES REMAINS ESSENTIAL TO MAINTAINING BALANCE OF PAYMENTS EQUILIBRIUM--RECESSION AND GROWING LEVELS OF UNEMPLOYMENT NOTWITHSTANDING.

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